

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /107 W

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R 131536Z AUG 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3952

INFO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY LONDON

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: UPDATED FORECAST OF FRENCH GROSS

INTERNAL PRODUCT FOR 1976

REFTEL: (A) PARIS 11982; (B) PARIS 0289

1. SUMMARY: BASIC TRENDS REPORTED REFTEL (A) REMAIN IN
FORCE BUT EARLIER AND STRONGER UPWARD SHIFT IN PRIVATE
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CONSUMPTION INDICATED IN PROVISIONAL 1975 GROSS INTERNAL

PRODUCT (GIP) HAS CAUSED ADJUSTMENT IN FORECAST OF REAL ECONOMIC GROWTH IN 1976 TO 5.5 PERCENT. ANOMALIES IN PROVISIONAL 1975 G.I.P. DATA PRECLUDE ITS USE AS DEFINITIVE BASE FOR 1976 PROJECTIONS. DEFINITIVE 1975 DATA NOT AVAILABLE UNTIL SEPTEMBER WHEN PROVISIONAL FIRST QUARTER 1976 RESULTS ALSO SHOULD BE AVAILABLE. FRENCH ECONOMIC GROWTH STILL BASED PRIMARILY ON A RISE IN THE RATE OF PRIVATE CONSUMPTION WHICH ROSE SHARPLY IN SECOND HALF OF 1975, LEVELED OFF IN THE FIRST HALF OF 1976 AND PROBABLY WILL NOT SHOW ANY GREAT CHANGE FOR THE REST OF 1975. INVESTMENT SHOWS NO SIGNS OF RISING AND IN REAL TERMS PROBABLY WILL BE FLAT FOR 1976 AT ABOUT A 0.8 PERCENT INCREASE OVER 1975. INVENTORIES SHOW MIXED TRENDS. ONLY A RELATIVELY SMALL OVERALL INCREASE IS EXPECTED, ALTHOUGH IN TERMS OF LAST YEAR'S MASSIVE INVENTORY RUN-DOWN THIS REPRESENTS A LARGE SWING. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS IS FORECAST AT MINUS 12.2 BILLION FRANCS IN CURRENT PRICES MAINLY REFLECTING TRANSFERS ESTIMATED AT ABOUT 10 BILLION FRANCS. EXPORTS ARE EXPECTED TO GROW BY ABOUT 8 PERCENT; IMPORTS BY 14.5 PERCENT. THE KEY ASSUMPTION IS THAT THE INFLATION RATE WILL BE OVER 10 PERCENT, PROBABLY BETWEEN 11 AND 12 PERCENT. THIS RATE IS EXPECTED TO DAMPEN REAL ECONOMIC ACTIVITY DURING THE SECOND HALF OF 1976, PARTICULARLY CONSUMPTION, AND TO FURTHER DEFER THE REVIVAL OF PRIVATE INVESTMENT WHICH THE GOF ANTICIPATED DURING THE SECOND HALF OF THIS YEAR.

END SUMMARY

2. FRENCH DEMAND AND OUTPUT ESTIMATES FOR 1975,
FORECAST FOR 1976; IN BILLIONS OF FRANCS

(1963 PRICES)

	1975	1976
PRIVATE CONSUMPTION	445.3	462.2
PUBLIC CONSUMPTION	30.6	29.8
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GROSS FIXED INVESTMENT	188.1	189.6
FINAL DEMAND	664.0	681.6
STOCKBUILDING	-23.3	2.0
EXPORTS AND NET SERVICES	144.2	155.7
IMPORTS	123.6	141.5
NET FOREIGN BALANCE	20.5	14.2
GROSS INTERNAL PRODUCT	661.2	697.8

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REAL CHANGES IN PERCENT

	1975	1976
PRIVATE CONSUMPTION	3.3	3.8
PUBLIC CONSUMPTION	10.3	-2.5
GROSS FIXED INVESTMENT	-7.0	0.8
FINAL DEMAND	0.4	2.7
STOCKBUILDING	-3.4	0.3

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EXPORTS AND NET SERVICES	-4.7	8.0
IMPORTS	-8.8	14.5
NET FOREIGN BALANCE	3.0	2.1
GROSS INTERNAL PRODUCT	-2.8	5.5

NOTES: (1) CHANGE EXPRESSED AS PERCENT OF G.I.P. IN PRECEDING PERIOD; (2) GROSS INTERNAL PRODUCT ESSENTIALLY EQUAL TO GROSS DOMESTIC PRODUCT LESS SERVICES PERFORMED BY GOVERNMENT WORKERS, DOMESTIC SERVANTS, AND PRIVATE LIMITED OFFICIAL USE

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INSTITUTIONAL EMPLOYEES; (3) ESTIMATES FOR 1975 ADJUSTED BY PROVISIONAL 1975 GIP DATA.

3. INDUSTRIAL PRODUCTION INDICES (CVS) 1970 100, ACTUAL THROUGH MAY 1976, FORECAST JUNE TO DECEMBER:

JAN 120; FEB 120; MAR 121; APR 121; MAY 121; JUN 121; JUL 122; AUG 121; SEP 121; OCT 122; NOV 123; DEC 123.

4. CONSUMPTION: ALTHOUGH FINAL 1975 G.I.P. FIGURES ARE NOT AVAILABLE, PRELIMINARY FIGURES SHOW THAT CONSUMPTION ROSE SHARPLY IN THE SECOND HALF OF THE YEAR. INDICATIONS SINCE POINT TO A LEVELLING OFF OF THE GROWTH RATE IN THE FIRST HALF OF 1976 WITH VERY LITTLE CHANGE ENVISIONED DURING THE SECOND HALF OF THIS YEAR, FOR AN OVERALL INCREASE OF ABOUT 3.8 PERCENT IN REAL TERMS. INDEED, EXPECTED PRICE INCREASES, EXACERBATED BY THE EFFECTS OF THE CURRENT DROUGHT ON FOOD PRICES IN THE FALL, COULD DAMPEN CONSUMPTION IN REAL TERMS, DESPITE AVERAGE INCREASES IN REAL WAGES AT ABOUT THE SAME RATE AS LASTYEAR AT CLOSE TO 2 PERCENT OVERALL, IMPLYING A RISE IN THE RATE OF SAVING NEXT FALL. ALSO AN ANNUAL RISE IN CONSUMPTION MUCH ABOVE 3.8 PERCENT SEEMS UNLIKELY UNTIL INVESTMENT REVIVES AND UNEMPLOYMENT DECLINES, NEITHER OF WHICH SEEMS LIKELY IN THE COMING MONTHS.

5. GOVERNMENT CONSUMPTION: NO CHANGE IN COMMENTS FROM REFTEL (A).

6. FIXED INVESTMENT: THE STATISTICAL SOPHISTRY REPORTED IN REFTEL (A), PLUS ADJUSTMENTS TO INVENTORIES, HAVE PRODUCED ANOMALIES IN FRENCH G.I.P. DATA WHICH PRECLUDE ITS USE FOR FORECASTING PURPOSES. PUBLICATION OF FINAL G.I.P. FIGURES HAS BEEN SOMEWHAT DELAYED BUT REPORTEDLY WILL BE AVAILABLE IN SEPTEMBER ALONG WITH FIRST QUARTER 1976 DATA. THE INCLUSION OF "INVESTMENT" UNDER THE ECONOMIC SUPPORT PROGRAM,

WHICH AS NOTED REFTEL (A) REALLY REPRESENTED ONLY
PLACEMENT OF FORWARD ORDERS BEFORE THE DECEMBER 31,
1975, FISCAL DEADLINE, APPARENTLY HAS BEEN OFFSET
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BY AN INCREASE IN INVENTORY DESTOCKING. CURRENT
OFFICIAL VIEWS ENVISION A REAL RATE OF FIXED
INVESTMENT BELOW ONE PERCENT IN 1976. THESE VIEWS
ARE AMPLY SUPPORTED BY BUSINESS SOURCES. VERY FEW
EXPECT A RISE IN INVESTMENT IN REAL TERMS THIS YEAR
ABOVE ONE PERCENT ALTHOUGH SOME BELIEVE AN INCREASE
COULD OCCUR IN THE FINAL QUARTER AND CONSIDER 2
PERCENT A POSSIBILITY.

7. STOCKS: AS NOTED IN REFTEL (A) CHANGES IN
INVENTORY HAVE BEEN PARTICULARLY BAFFLING. DATA
IS NOT AVAILABLE AND LAST MINUTE REVISIONS OF ESTIMATES
EVIDENT IN 1975 PRELIMINARY G.I.P. DATA ARE NOT VERY
CONVINCING SINCE BOTH CONSUMPTION AND INDUSTRIAL
PRODUCTION BEGAN TO RISE IN SEPTEMBER 1975 AND
REPORTS BEGINNING SECOND HALF 1974 SHOWED CONTINUOUS
DE-STOCKING. THUS, THE VERY LARGE INCREASE IN DE-
STOCKING IN THE FINAL QUARTER OF 1975 IS DIFFICULT
TO EXPLAIN. NOW MOST CONTACTS STATE THAT INVENTORIES
HAVE LEVELLED OFF AND NO STRONG GROWTH IS EXPECTED.
SINCE PRELIMINARY G.I.P. DATA FOR 1975 SHOW A REDUC-
TION, IMPLICITLY MASSIVE IN THE FINAL QUARTER, THE
QUESTION IS WHEN EXACTLY STOCKS ROSE BEFORE THEY
AGAIN LEVELLED OFF. IMPORT FIGURES SUGGEST THAT
PRODUCER INVENTORY BEGAN RISING LATE LAST FALL AND
PEAKED IN THE FIRST TWO MONTHS OF THIS YEAR. EXCEPT
FOR AUTOMOBILES, IT IS DIFFICULT TO FIND ANY EVIDENCE OF
RESTOCKING FOR FINAL SALES. INTERMEDIATE GOODS SUGGEST
A RESTOCKING IN THE SPRING OF 1976. IN ANY EVENT, ALL
SOURCES AGREE THAT INVENTORY CHANGES WILL BE MODERATE
FOR THE REST OF THIS YEAR WITH SOME DE-STOCKING
POSSIBLE DURING THE SECOND HALF IN RESPONSE TO A MORE OR
LESS FLAT RATE OF PRIVATE CONSUMPTION.

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8. BALANCE OF PAYMENTS:

ESTIMATES FOR 1975, FORECAST FOR 1976, IN
BILLIONS OF FRANCS (CURRENT PRICES)

	1974	1975	1976
EXPORTS & NET SERVICES		238.8	246.2 265.9
IMPORTS		257.1	231.2 268.1
BALANCE ON GOODS & SERVICES		-18.3	15.0 -2.2

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NET TRANSFER -10.2 -10.1 -10.0

BALANCE ON CURRENT ACCOUNT -28.5 4.9 -12.2

THE RELATIVELY HIGH RATE OF IMPORTS FORECAST

REFLECT RE-STOCKING OF PRODUCER INVENTORIES, WHICH APPEARS TO HAVE ABOUT RUN ITS COURSE, PLUS INCREASED IMPORT PRICES CAUSED BY THE RECENT DEPRECIATION OF THE FRANC. THE RATE OF EXPORTS REFLECTS THE EFFECTS OF THE DROUGHT, ESTIMATED AT ABOUT A 5 TO 6 BILLION FRANC REDUCTION IN AGRICULTURAL EXPORTS.

9. WHEN THE DEFINITIVE G.I.P. DATA FOR 1975 IS RELEASED IN SEPTEMBER ALONG WITH FIRST QUARTER 1976 RESULTS, A NEW FORECAST FOR THE PERIOD 1975 THROUGH MID-1977 WILL BE PREPARED. POSSIBLY FINAL FIGURES WILL RESOLVE OR EXPLAIN THE ANOMALIES IN THE QUARTER-TO-QUARTER CHANGES OF THE PRELIMINARY DATA.
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